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SUBJECT: UNCLOGGING VIETNAM"S PORTS: WORLD-CLASS CONTAINER TERMINAL PROJECT COPES WITH BAD ROADS, POOR PLANNING

REF: 06 HCMC 411

HO CHI MIN 00000757 001.2 OF 003

¶1. (SBU) Summary: As skyrocketing cargo volumes continue to clog Ho Chi Minh City (HCMC) ports, a state of the art deep-water port complex with an eventual capacity of at least eight million shipping containers per year is taking shape 90 km from HCMC in Ba Ria Vung Tau (BRVT) province. Poor coordination between GVN officials responsible for water and land infrastructure, however, has stalled the construction of vital bridge and road links, which will prevent the new ports from initially operating at peak efficiency. Despite these infrastructure shortfalls at the port that handles 70 percent of all container traffic to/from Vietnam, the GVN is funding commercially dubious deep-water projects in remote central provinces, such as the Van Phong bay transshipment port, as part of regional development efforts. Recent USG assistance in the form of U.S. Agency for International Development (USAID) and U.S. Trade and Development Agency (USTDA) transportation infrastructure study grants appears to have increased both the transparency of the GVN"s infrastructure planning process and coordination between GVN entities responsible for different aspects of transportation infrastructure development. End summary.

Port Congestion Hikes Costs, Hinders Trade

¶2. (SBU) A surge in imports, on top of ten years" of 20 percent annual increases in freight container throughput, has stretched HCMC"s ports, Vietnam"s busiest, to the breaking point. Incoming vessels typically wait a day or more for open berths, and port customers complain of an additional three to four day wait to retrieve inbound containers as wharfs crammed with freight constrain crane operations and truck movements. Shippers as well as port customers are straining to adapt to the unpredictable delays. To maintain supply chain schedules, manufacturers are increasing lead times and ordering more inputs, resulting in larger inventory costs. Several major shippers, meanwhile, recently announced a US$50 port-congestion surcharge on EU bound freight, and a US$10 per twenty foot equivalent unit (TEU) handling fee for U.S.-bound containers. This already bleak situation is set to take a sharp turn for the worse, with newspapers reporting that many container ships will be unable to fit under the construction scaffolding of the long awaited Phu My bridge once construction begins next month. Reports indicate that the 30% of largest ships currently calling at HCMC -- ships that carry 60% to 70% of total volume owning to their larger size -- will be unable to reach their destinations, decreasing capacity at four of HCMC"s major ports. As manufacturers gear up

for the crucial U.S. holiday season -- clothing, apparel, and electronics shipments must depart Vietnam by no later than October to reach U.S. store shelves in time for the holidays -- port customers fear that the increasing freight volumes and infrastructure snafus will wreak havoc with shipping costs and schedules.

New International Container Gateway:
Vietnam"s Direct Link To The World

¶3. (SBU) With no room to expand, most of HCMC"s downtown river ports, 85 km from the sea, are either being relocated downstream or replaced by new deep-water container facilities in neighboring Ba Ria Vung Tau (BRVT) province. State-owned port operator Saigon Port, and its parent company Vietnam National Shipping Lines (Vinalines), have initiated joint ventures with key international terminal operators, including Seattle-based SSA Marine, Singapore"s PSA, Denmark"s Maersk, and Hong Kong"s Hutchinson Port Holdings to develop eight state of the art container terminals on the Thi Vai river in BRVT province, 90 km from HCMC. Designed to handle so-called "Hyper-Post Panamax" vessels of up to 190,000 dead weight tons that are capable of transporting upwards of 15,000 containers at once, these facilities will directly link Vietnam to Europe and the U.S. (Note: Despite the volume of bilateral trade, there are currently no direct US-VN sea links since the ships that can call at VN ports are too small to be economically viable for trans-ocean trips. All of Vietnam"s long-distance ocean trade is currently carried by smaller feeder vessels that transfer cargoes to larger ships in Singapore and Hong Kong. End Note.)

¶4. (U) Each of the new terminals under construction will process, on average, in excess of one million TEUs per year, meaning that when they come on line they will double the entire country"s container capacity. (Note: According to Vinamarine officials, Vietnam"s 2007 container throughput was 4.2 million TEUs.) While such a massive increase in capacity would normally

generate concerns of overcapacity, the demand for port services is expected to dip below the available supply by only a small margin in 2010. By 2012, demand is expected to exceed capacity once again. (Comment: While the collection of eight or more new ports in BRVT province will collectively constitute a true world-class "mega port," many private port developers believe that instead of issuing investment licenses for eight separate container terminals (with three more planned), development of a single mega port in BRVT province would have generated the economies of scale necessary for a world-class transshipment hub. End Comment.)

Road, Bridge Delays Push Congestion Inland

¶5. (SBU) While manufacturers welcome the increased port capacity under construction, they also worry that the commensurate landside infrastructure linking the new ports to industrial zones will not be ready on time. The one highway that currently links the BRVT province with regional factories is already overcrowded with truck and motorbikes, and will not be able to handle the additional four to eight million container trucks per year that will be needed to service the ports. Unfortunately, plans for a new parallel highway remain only that. Indeed, several BRVT port projects, such as SSA Marine"s, currently have no land connection whatsoever and are using river barges and small passenger vessels to ferry all construction materials and personnel to the work site. Port developers attribute the looming delays to the lack of a unified ("intermodal") infrastructure plan, noting that queries to Vinaline, the government entity responsible for port development, regarding the lack of land infrastructure are met with "that"s not our problem", and referred to the Ministry of Transportation, who, in turn, refers questioners to the master plan and provincial authorities. BRVT provincial officials meanwhile blame "technical problems" for road and bridge delays, and indeed the weak sandy soil in the area ("like building on toothpaste" one engineer told us) requires time-consuming treatment before

cement can be poured.

¶6. (SBU) The difficulty in building in the region does not, however, explain lengthy delays in starting land infrastructure projects. For example, construction of the eight km spur road and 300 meter bridge linking the SSA terminal to the main highway was scheduled to begin in September 2007 but has yet to break ground. The lack of intermodal planning appears to result in a situation in which the various entities involved simply do not share a common sense of the urgency of solving all of the problems threatening the operation of Vietnam"s main port and thus its export-driven economic expansion.

Port to Nowhere: Build It and They Might Not Come

¶7. (SBU) While delays and underinvestment in land infrastructure will postpone the onset of the new BRVT ports" peak operating efficiency, the GVN is pushing ahead to build a two billion dollar international transshipment port, "to rival Hong Kong and Singapore" at Van Phong bay in central Khanh Hoa province. While Van Phong bay is one of the world"s finest natural harbors -- it"s natural depth of 23 meters can accommodate the largest container ships afloat today without resorting to expensive dredging -- private sector shippers question GVN officials" aspirations for creating a world-class transshipment facility here, citing the lack of local industry that would create a demand for cargo (the province"s cumulative FDI for the last 20 years totals $500 million), long distances to industrial and population centers (450 km from HCMC and 1,300 km from Hanoi) and poor road and rail connections. While GVN officials have been besieged by foreign partners desiring to invest in the BRVT port complex (three additional facilities are planned in addition to the eight already under development there), they have yet to find a foreign partner for the Van Phong project, and recently decided to complete the first $700 million phase of the project entirely with public funds.

¶8. (SBU) Comment: While the poverty and lack of industrial development in Khanh Hoa province places the port on very shaky economic ground, these are also the factors that apparently led the GVN to decide to invest so heavily in such an out of the way port. The goals of the project appear to be rural economic development and the geographical diversification of Vietnam"s economic engine, which is currently heavily concentrated in and around HCMC. While these are understandable goals, the Khanh Hoa port project has little chance of helping Vietnam"s near- to mid-term economic prospects. End Comment.

USG Assistance Increases Transparency and Cooperation

¶9. (SBU) The U.S. Agency for International Development (USAID) and the U.S. Trade and Development Agency (USTDA) have recently funded studies designed to achieve higher efficiency in trade transportation logistics. In late June, fourteen high-level GVN decision makers, including ministerial and provincial level infrastructure development officials, took part in a USAID-funded study mission to Singapore and China to visit counterpart officials to discuss high-efficiency, intermodal transportation infrastructure development. According to study mission participants, this trip was the first time representatives from diverse agencies such as the Office of Government, the Ministries of Planning and Investment, Transportation, and Finance as well as their provincial counterparts sat together to discuss intermodal infrastructure issues. Since then, private industry co-sponsors of the mission, including Nike, Neptune Orient Lines and Maersk, tell us that GVN officials have promised more transparency in the planning process and for the first time offered private sector stakeholders the opportunity to review GVN infrastructure master plans before they are released. Also in late June, the USTDA awarded a $148,170 grant to Vinalines to adopt procedures and technologies to more efficiently move containers in and out of Vietnam, a project to be carried out in conjunction with SSA Marine.

Comment

¶10. (SBU) The challenges facing HCMC"s ports are serious enough to represent a very real constraint on the continued expansion of the Vietnamese economy. At present, over half of the entire GDP of Vietnam, as well as over 80 percent of its non-oil exports by value, originate from the five provinces around HCMC known appropriately as the "Southern Key Economic Zone." If exports -- and imports of the inputs needed to produce them -- are significantly delayed or become more costly due to increases in shipping surcharges associated with congestion, the entire Vietnamese economy will suffer. At present, the outlook is not good. While the Phu My bridge project is absolutely vital for relieving chronic congestion and improving land-side access to ports, there appears to be no way to avoid the looming congestion that construction-related river traffic restrictions will generate. The lack of investment in land-side infrastructure makes the next several years look even more challenging. At the same time, huge publicly-funded developments projects such as the trans-shipment port Van Phong Bay and five other deep-water port projects in relatively undeveloped areas of central Vietnam are unlikely to make more than a small contribution to growth while generating a large public debt burden.

¶11. (SBU) Comment continued: Recent efforts to influence the GVN"s thought processes on infrastructure planning appear to be bearing fruit. The USAID-funded study mission to Singapore and China appears to have opened up the official infrastructure planning process to private sector stakeholders and opened lines of communication between the "stove piped" ministries and departments that are responsible for different aspects of infrastructure development. The USTDA grant to Vinamarine will hopefully continue this positive trend. End Comment.
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